



AN OVERVIEW OF RECOVERY ZONE BON

The City of Reno and

NSB PUBLIC FINANCE

Key Elements

- New financing tool for cities with populations over 100,000
 - Stimulate job creation and economic recovery
- Offer interest rate "subsidy" - **not bond repayment source**
- Must be issued by December 31, 2010
- Targeted to areas with greatest declines in employment
- Two programs:
 - Recovery Zone Economic Development Bonds
 - Recovery Zone Facility Bonds

What Constitutes a Recovery Zone?

- Area with significant levels of poverty, unemployment, foreclosure activity, or general distress
 - Area designated by the issuer by adopting a resolution identifying one or more of the factors above
- An area economically distressed due to the closing of a military base
- An area already designated as an empowerment zone or renewal community

Recovery Zone Bonds

- National Volume Cap on Total Issuance
 - Recovery Zone Economic Development Bonds: \$10 billion
 - ◆ **City of Reno = \$43,736,000**
 - Recovery Zone Facility Bonds: \$15 billion
 - ◆ **City of Reno = \$65,604,000**
- Allocation Process
 - First, among States based on employment declines in 2008
 - Then, to large cities over 100,000 population and counties based on relative employment declines within the State

Recovery Zone Economic Development Bonds

- Taxable bonds with a federal cash subsidy of 45% of the interest payable to the issuer over the life of the bonds
 - Similar to “Build America” Bonds, but with deeper subsidy (45% vs. 35%)
 - To be funded:
 - Tax-exempt eligible capital projects in a recovery zone
 - Public infrastructure that benefits a recovery zone
 - Job training and educational programs (may include non-capital expenditures)
 - Not permitted:
 - Refundings of outstanding debt
 - "Private activity" uses
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Recovery Zone Economic Development Bonds

Structuring Considerations

- Repayment Security:
 - Like all bonds, these need a repayment source
 - Sources might include general obligation, tax increment, general fund, enterprise, or special tax revenues, etc.
 - Potential Approaches to Federal Subsidy
 - Subsidy as ongoing cash-flow
 - ◆ Pledged to bonds or used for other City/Agency purposes
 - Recognition in additional bonds test will depend upon legal documents
 - Other Issues
 - Transfers risk of changes in U.S. Treasury rules over the life of the bonds from investor to issuer
 - Requires issuer to file semi-annual request for Treasury payment
 - ◆ Process may be simplified in the future
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Taxable Bond Market Considerations

- Taxable Municipal Bonds
 - Priced at a spread over comparable Treasury rates
 - Spread depends upon credit quality and market conditions
- Taxable Investors
 - Broader audience than typical municipal buyers
 - Bond funds, insurance companies, pension funds & individuals

Recovery Zone Facility Bonds

- Tax-exempt bonds to support qualified private activity in addition to government activity
 - Much broader than typical private activity bond rules
 - To be funded:
 - Depreciable property in a recovery zone
 - Project must be constructed, renovated or acquired after the area has been designated as a recovery zone
 - Not permitted:
 - Land acquisition
 - Rental residential property
 - "Sin" businesses:
 - ◆ Golf course, massage parlor, liquor store, racetrack, suntan parlor, gambling facility, etc.
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Recovery Zone Facility Bonds

Structuring Considerations

- Loans to private Entities
 - Issuer can loan funds to private business with repayments covering the bond debt service
 - How creditworthy is the private business? Does issuer want the "reputation risk?"
- Issuer Credit Enhancement
 - Credit will likely benefit from pledge of City, County or Agency funds as primary or backstop revenue
 - Tax allocation Bond Example: issue bond secured by tax increment revenues, but reimburse Agency from private business repayments
 - "Double-barreled" credit also possible, but will require more disclosure from private business